THE RELATION OF AUDITING TO PUBLIC CONTROL

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The corporation is an association of persons combined for common ends. The primary principle of economic and social advantage in corporate organization is to be found in the broader co-operation made possible thereby. The corporation is the modern instrument of private and public welfare, and any consideration to be given to the subject of control by the government should proceed from the point of view of welfare to the corporation, rather than opposition to it. While practices have been permitted by officers of corporations that are deserving of the severest condemnation as opposed to public interest, the hostility that is shown (especially to those forms of corporations known as "trusts") has in large measure been born of ignorance and fostered by envy—ignorance as to the character of the institutions through which much of our national prosperity has been attained, and envy that is in a measure attributable to the greater success of those who have worked through the corporation. Out of this hostility has developed much of harm both to the corporation and to the public. The products of misguided attack have been hasty legislation and abortive attempts at public control over the corporation as a means of hampering its prosperity—attempts which, in many instances, if successful, would have thwarted national progress, violated contracts, rendered uncertain business judgment and destroyed many of our best institutions. As concrete illustration of this we have the "granger legislation" of some twenty years ago, from the evil effects of which we have not yet wholly recovered—a species of legislative action which has practically driven the larger corporations out of local jurisdictions where they should have received legal protection, causing them to find cover in states far removed from investment capital interests and from the resources to be developed.

And this hostility is growing. By the corporations removing themselves from the jurisdiction of hostile, local courts and legislatures, by seeking protection as citizens of a foreign state under the federal constitution, the demand for public control now centers in the national capitol to which are sent the political representatives of these same hostile, local constituencies. Whatever may be the mellowing effect of broader association, whatever the wider view gained by representatives in Congress, these representatives (measured by their constituency according to the hostility which they display toward corporations) are forced into an attitude which is threatening both to corporate organization and to the integrity of the government itself. By making the legislative lobby the chief instrument of corporate protection, both the government and the corporation becomes corrupted till finally popular prejudice seeking expression in law, through ignorant bias may seriously handicap material development. Such is the situation that citizen and stockholder must face in any effort directed toward a better adaptation of the law to the growing needs of the nation.

Federal legislation may be regarded as inevitable; it is sought alike both by the corporation and by the public; it is sought by the one as a means of protecting corporate interest, by the other to the end of instituting forms of inquisition that may prove discouraging to corporate activity and destructive to industrial and commercial welfare. What the next few years will develop will depend largely on the mutual consideration given by parties in interest to the merits of the question. Nothing could be more dangerous than legislation that comes in response to popular hatred; neither would it be more fortunate if the law were shaped by the usual interests of corporate officials and agents, through sharp practice and deceit. The issues must be fairly considered and fairly met by both parties without regard to the wishes or dangerous contrivances of self-interested officials or peculating corporate agents who prosper by abusing the confidence of the public as well as of shareholding proprietors.

Public Control and Public Welfare.

To be effective, public control must be such as will promote rather than impair public welfare. Accepting this as our first premise for reasoning, there are two classes of concepts that must be

understood and appreciated. These may be the more clearly brought before us by the questions: (1) What is the character and significance of the institution or co-operating group known as the private corporation, and (2) What is the significance of control.

The private corporation is a democratic institution; it is the prototype of modern democratic government; it is the creature of the state designed to promote both public and private welfare; its purpose is to secure to its stockholders and to the public the benefits of broad association and intelligent co-operation in private business without the exercise of an arbitrary will or a Cæsarian prerogative by those in official or directing position. Both creative enactment and the organic corporate structure are designed to prevent the exercise of arbitrary power by those managing community interests. Legally and organically, the corporate will is the will of the majority of the stockholding proprietors; if the acts or policy of the corporation are not in accord with public ideals and do not proceed from the expression of the will of the majority of the stockholders, if any officer or coterie of agents does exercise arbitrary power, then legally and organically the public law makers, or the stockholders, or both are at fault for permitting their servants to assume to continue to exercise this arbitrary power.

It is to the end that neither public welfare nor the private proprietary purpose may be violated that *control,* both public and private, is to be instituted. It is for the purpose of making control effective, of making the corporation as well as each agent responsive to the state as well as to the proprietary shareholding interests —that the form of corporate organization is prescribed. The primary principle of *public* control lies in the fact that a corporation must obtain a charter; as a means of protecting *public welfare* no corporation is permitted to enjoy rights or exercise powers except such as are granted to it. The principles fundamental to *private* control, or the responsibility of the corporation and its agents to shareholding proprietors, lie in the legal provisions made with respect to corporate organization.

Factors of Public Control.

Let us consider in detail the factors of control. As related to ***public welfare,*** the powers of control lie with the government. These

powers are legislative, executive and judicial. The powers of government are both adequate and complete. The *legislature* as the representative of public opinion, as the corporate agent of welfare, determines for what purpose and in what manner corporate powers are to be exercised; it is through laws, general or specific, by virtue of which the corporate group obtains its charter powers, that all problems concerning public policy are to be the most effectively reached. The charter or contract of incorporation determines what a corporation may do or possess. Are there questions pertaining to rights of succession, to capitalization, to property, to methods of acquisition, to eminent domain, to powers of purchase and control of the stock of other corporations? Is the public aggrieved because of franchises or public utility enjoyed, because of the domination of a corporation by a single stockholder through his power to purchase or acquire a majority control or because of the pooling of stock interests? These, and all other questions which have to do with public policy or public well-being are to be fairly considered by the law-making or charter-granting branch of the government before the corporation is organized. Is the "trust" or the "holding company" an evil? Is the purpose for which the corporation is to be organized against public policy? Then the remedy is primarily in legislation governing charter grants, and not in executive or judicial inquisition, seeking to curtail rights granted or implied.

Once a charter has been granted and accepted, or a corporation organized in accordance with the provisions of a general law, the state, by all its administrative powers, *executive* and *judicial,* is bound to enforce the contract which has been entered into between the state and the incorporators. Neither the citizen nor the government may hope effectively to reach problems pertaining to public welfare or public policy except as they themselves may control their own representatives and agents, politically appointed or selected to formulate laws defining the powers and purposes of incorporated companies. A general law of incorporation stands on the statute books as an offer to all who may wish to comply with its terms; a charter is a grant on petition. This offer when accepted by incorporators (or petition when granted) becomes a sacred compact, inviolable by executive or by court. The charter grant or acceptance, or under the general law the acceptance of legal conditions imposed

becomes the basis for investment rights which must be upheld by the government in the same manner as are other institutions of private property.

Legislative Inquiry as a Means of Public Control.

After entering into a contract with a corporation, the only question which may be raised by the government is, whether or not the terms of the contract have been complied with. To determine this fact, the government may institute any form of inquiry which it may deem most convenient or effective. The state may rely entirely on its powers of legislative inquisition, appointing commissions to take testimony and to inquire minutely into the good faith of the corporation and of its agents; legislative inquiry may also be made for the purpose of determining conditions to be attached to subsequent charters granted, investigation being directed toward the problem of control of corporations to be organized rather than toward control over those existing under present laws.

Executive Inspection and Examination of Corporate Records.

Again, the state may constitute a regular department or corps of inspectors under the control of the executive. For example: banks are incorporated under the laws of the state. The public purpose of such an incorporated society is to have a responsible agent which will furnish to the community demand credits (so-called deposits) for use in business as current funds. The social advantage is to have provided a form of cash more convenient in use and less expensive than money. The bank offers to sell to its customer an account against which he may draw, thus saving him the expense and the risk of carrying a money stock large enough to answer the needs of his business. In passing laws for the incorporation of banks the government, as the agent of the public, is interested in knowing that the credit-account offered by the bank to its constituency as cash is "sound," *i. e.,* that it will be paid on demand. To this end the legislature requires that those associating themselves for bank purposes shall contribute a capital sufficient to provide the corporation with an adequate money stock out of which the credit-accounts sold to the public may be currently redeemed. Public welfare demands an adequate bona fide cash capital, and that

this capital shall not be permitted to become impaired. As a means of ascertaining whether the charter provisions have been complied with, the government creates a department of banking control, the chief function of which is to inspect and to receive reports from banks. This is done that the government, through its executive branch, may have the means of currently collecting evidence of good or bad faith on the part of the corporation or its agents, and protect the public as well as the institution itself against corporate infidelity which may thwart the purposes of its creation.

In the interest of common welfare (expressed in service rendered for which investors may obtain remunerative return) a savings bank is incorporated. With this institution, the principle of welfare is one of stimulating savings by providing an institution through which the small individual surpluses acquired through popular thrift and economy may be gathered into large corporate funds —funds large enough to maintain a staff of trained agents for the protection of the savings accounts, and for the proper direction of capital into remunerative investment. Safety of investment, the best rate of return compatible with safety, and prompt payment of savings accounts are the criteria held before the legislature in the offer made to prospective incorporators; this is the public interest which the government has in control over incorporated savings societies.

The trust company is another form of corporate organization for public service. In our modern, complex community, under conditions of constantly widening corporate organizations, many forms of trusts have grown up on the execution of which depends the safe conduct of business, and the protection of individuals and members who may be interested in institutional results. In this, the measure of control is fidelity, conservative investment of funds and income from estates, and financial responsibility. The insurance association is organized for social protection against material want and private penury—for the protection of families out of the combined incorporated estate of the insured. In all of the investment institutions, the shareholding proprietor, if such there be, is one who has contributed a portion of capital for the protection of trust resources, and to insure the financial responsibility of the institution organized for investment service. The stockholder of such an institution, therefore, has a double duty to perform—the

one to himself, the other to the beneficiary of the corporation to which the stockholder stands in relation of proprietor. In an institution which does not have the care of trust estates or trust funds, the penalty for failure on the part of the shareholding proprietor to perform his duty is personal loss; in a trustee institution whatever may be the pecuniary loss to the shareholder, the law should compel a strict propriety control in the interest of the beneficiary. In such case not only the officer of the instituton, but the stockholder also stands in a position of trust responsibility.

The same is true of the public service corporation. If gas is to be supplied, the organic complexity of a modern municipality may require that the government exercise extreme care in the granting of charters, and that there be such inspection as to protect the public against inferiority of product. The water supply touches not alone the interest of public convenience, but also has an important bearing on public health. The transportation company is incorporated to perform a service on which depends not only commercial and industrial welfare, but quite as much conditions of health and comfort which are centered in the habitat of the individual citizen. Food, air, light, recreation and business are all closely interlaced with the affairs of the public service corporation. These are institutional facts that must be recognized and must be fairly dealt with by the corporation. On the other hand, the people must recognize the character of the corporation and must reckon with the fact that corporations are organized for public service and that any control which tends to hamper or weaken corporate activity must necessarily interfere with the usefulness of the corporation to the public itself.

With reference to all incorporated institutions the government, as the representative of social order and welfare, has an interest in knowing that corporate control is exercised over the agencies or trustees entrusted with the corporate estate—an interest in control which runs not only to the institution, as such, but also to the shareholding proprietor. This interest requires that the duties and responsibilities placed on the institution and on the shareholding proprietor shall be strictly fulfilled, but in case these corporate duties and responsibilities are met, every administrative controlling purpose shall have been complied with. As a means of knowing whether the corporation has complied with the charter contract, the govern-

ment vests its department of inspection with power to furnish to the state evidences of infidelity or non-feasance. But with this public inspection should end. The rights, powers and conditions under which the company is to operate must not be interfered with.

The Courts as Instruments of Public Control.

Evidences of non-performance or malfeasance having been detected through official inspection, or otherwise, the department of justice stands ready, by mandamus, by injunction, by quo warranto proceedings, by receivership, or by charter annulment and dissolution, or other legal or equitable processes to enforce strict compliance with the contract made by the incorporators with the state. The courts may interfere either for the protection of public welfare or as a means of protecting the corporation itself against the acts of its agents. Through the courts any and all provisions made for social or corporate protection as defined in legislation, or in legal precedents of control may be strictly enforced. But any interference on the part of the government, either through its executive or judiciary, which goes beyond this would prove destructive to private right, and impair the purposes for which the government itself has been organized.

Significance of Private or Institutional Control of Corporations.

In approaching the problem of control two further premises may be laid down as a basis for reasoning: (1) that any influence which tends to encourage the larger and more rapid development of these several institutional forms of co-operation is an influence which makes for social progress and individual welfare; and conversely, that any influence which tends to discourage the larger and more rapid development of these several forms of co-operation are influences which stand in the way of social progress and individual welfare. (2) That in institutional and social welfare must be found the largest success of the corporation itself and, therefore, that the interest of the public is the interest of the shareholding proprietors of the corporation as well as of the several corporate agents entrusted with the management of its affairs.

Proceeding from the view-point of corporate success, the question of control resolves itself into terms of corporate integrity and

efficiency of corporate management. The ideal of corporate integrity is that every officer and employee shall completely bury his own selfish purposes and devote his best thought and talent to the ends and purposes of the institution. Corporate fidelity is the essential principle of corporate success. It is to the private corporation what patriotism is to the public institution.

Any system of control which looks to the success of the corporation must have in mind fidelity of service, and this must come from within and not from without. When corporate character has been established and a disposition exists on the part of employees to devote to the institution the best thought they have to give, the question of corporate efficiency is one which depends on the exercise of discretion in the choice of agents. But the exercise of this discretion must likewise be considered in any system of effective control; this cannot be supplied by government inspection or legal inquisition. The control which makes for corporate success is the control which encourages the larger and more rapid development of the several forms of institutional co-operation through which the largest social welfare may be attained. This control must be within the corporation itself and cannot come from without.

Legal Provisions for Private Corporate Control.

Before the committee appointed by the legislature of the State of New York to investigate the management of the insurance societies of that state, one of the directors of the Equitable Life Assurance Society of the United States, and a man prominent in the affairs of many corporations, expressed the opinion that the system of directorship in the great corporations of to-day is such that a director has practically no power; that the director (representing the beneficial interests) is considered a negligible quantity by the executive officers of the society; that especially was this true when one man obtained control over the affairs of the association. Whatever may be the practice or usage in our great corporations, this statement does not accord with the spirit and intent of the law. The law contemplates a strict control over the corporation by those holding a beneficiary interest. As before suggested, the legal provisions made for private control are found in the form of organization prescribed. The legal principle of private control is one of trusteeship—a prin-

ciple most carefully and righteously guarded by the courts holding the trustee to the strictest account. The trust organization as an instrument of corporate control may be described as follows: (1) As a means of rendering possible the prevention of the exercise of arbitrary power on the part of a single stockholding proprietor, the stockholders, as such, are deprived of all rights or powers to transact any of the business of the corporation; no proprietary power or franchise of the corporation is placed in the hands of the stockholders. The corporation as an artificial person is the sole owner and entitled to the exclusive, constructive possession of all properties; it alone has the right to exercise powers and to enjoy corporate privileges. (2) A further protection to the shareholder is found in the fact that the constructively possessed artificial person (the corporation) to which has been entrusted his capital has in itself no power to act except through living, thinking, morally and legally responsible officers or agents called a board of directors; these are selected by a majority vote of the shareholding proprietors of the corporation. (3) To make corporate trusteeship the more secure, to remove still farther the possibility for the exercise of arbitrary power on the part of those in control of the corporation, the active business of the company is taken out of the board; while they are the direct representatives of proprietors and beneficiaries they are permitted to act in a representative capacity only, being in the position of intermediaries between stockholders and beneficiaries whom they represent, and the officers appointed by them to carry out the details of the business. (4) The actual possession of properties, and the current operations of the company are left to officers or agents—creatures of the board appointed by and responsible to it. This corporate form of organization is intended to give to the shareholder a double protection, and to the corporation itself a triple legal bulwark—a triple refinement in agency responsibility. On the first group, the shareholder, rests the responsibility for expressing the corporate will by a majority vote, and for the selection of a representative board. The second group, the board or trustees selected by the shareholders, is responsible for the general direction to be given and for the selection of the active agents and employees of the company. The third group is responsible to the company through the board; while legally under the control of the directorate, the officers' ultimate responsibility is to the stockholders—the proprietors not of

the funds and properties, but of the corporation which owns the funds and properties.

With this form of organization it is possible to institute a system of corporate administration which will not only locate personal responsibility for every act of the company, but will also accurately determine the fidelity and ability of each agent. The problem of corporate administration is (1) to associate together a group of corporate servants, or agents, acting under a legally devised system of trusteeship which will effectively co-operate to carry out the purposes of the organization, and (2) to direct this co-operating or serving group with the highest intelligence and efficiency. *Private, corporate control goes to the second administrative problem above suggested, viz.: that of fidelity (public or private) to the purpose of the organization and to the intelligence and the efficiency with which each corporate agent or employee conducts himself.* The problem of corporate control, therefore, must be considered as having two significant bearings: (1) being a creature of the state, created in the interest of public welfare, public control may be exercised to the end that public interests may not be violated; (2) since the state has permitted it, as an institution, to receive contributions of capital as a means of accomplishing the common proprietary purpose, provision is made for the exercise of proprietary control over that institution and its agents as a protection to those having vested rights.

Factors in Effective Private Control.

With broader co-operation and consolidation, and with the increased complexity of organization, the problem of private corporate administration becomes an increasingly difficult one. Official and proprietary discretion must rest on intelligence. Adequate intelligence may come only through the operation of a thorough system of institutional record, inspection and account such as will give to those in positions of control an accurate knowledge of the details and results of business—a system of control which will give to each subordinate full credit for fidelity and ability, as well as mark the infidel and the incompetent for discipline or removal.

To be effective, a system of private or institutional control must also have regard to the several classes of proprietary and trust

responsibility provided for in the legal form of organization. Responsibility for administration is of four kinds: (1) The proprietary responsibility of stockholders; (2) the representative responsibility of a board; (3) the operative responsibility of the officer and of his subordinates, and (4) the employees' responsibility to those in directing position for intelligent and faithful service. Intelligent and effective corporate or private control, and the protection of those interests and purposes for which the corporation was created and capitalized, demands that the employee shall report to the officer, that the officer shall report to the board, that the board shall report to the share-proprietor, and that the share-proprietors shall with integrity perform their duties toward each other, toward creditors and the public in the exercise of proprietary discretion. To the end of obtaining accurate, well-classified, and well-digested information, answering to these several classes of responsiblities a system of subsidiary and controlling accounts is devised and installed by which those in operative and directive trust relations may keep an accurate record of the doings.

The Relation of an Audit to Corporate Control.

An audit pertains not to *public* control but to a system of *private or institutional* control; it has to do with adminstrative methods with operative results obtained by the corporation as a working group, and not with questions of public policy or public welfare. The audit is a method by which an accountant inspects the system of *private* administration for the purpose of determining whether this gives to the corporation itself and to the corporate proprietors the control which is intended by public laws of trusteeship—to determine where this control is weak or wanting, and where, on account of administrative weakness or lack of control, there has been infidelity or inefficiency in the service. Looking at the question of control from the view-point of corporate success, auditing is a primary essential without which neither the share-proprietor, the board, nor the officer himself may know whether the agent or subordinate has been faithful or, for that matter, the institution itself has fulfilled the purpose of its being. The audit has no direct relation or bearing to any method or system of public control as exercised under democratic, as distinguished from bureaucratic, government.

The Relation of an Audit to Public Welfare.

There are two general aspects of public interest in corporations, viz.: that which looks to the enforcement of charter contracts representing ideals of public policy and welfare, and that which would enforce social order as expressed in rules of business integrity, in performance of private legal obligations, in the execution of private trusts, etc. Proceeding from the assumption that the government should by proper legislation provide for the orderly conduct of a business, and for enforcing the performance of private duty, it may be held that in addition to the powers of inspection by the government as a means of determining whether charter provisions have been complied with, there should be a bureau of corporation audits which should inquire into the question of the working relations of the corporation. This argument, however, would seem to be vicious for two reasons: *First,* because there is no greater or stronger reason for the government inquiring into the private relations of corporations as a means of protecting parties interested against the infidelity of others, than there is for the government questioning the private relations of partners; in fact, under the legal form of organization, a corporation which has installed a proper system of private control would have less reason for the government inquiring into its working relations since there is every legal method provided for holding officers, agents and employees to the strictest account; there is no part of our law which is so jealously guarded and enforced, as is that which pertains to trustees—any infraction coming to the attention of a court finds remedy in civil damages and exemplary punishment under the criminal code. *Second,* for the reason that the corporation and those interested in the corporation are in a much better position administratively to protect themselves through a system of current account and regular audit than could possibly be done by a bureau or branch of the government.

As a means of providing for the orderly conduct of the business of its corporate creature, the only question that the government is interested in is to know whether or not the corporation has installed a method of record, inspection and account which will hold its officers and agents to a strict account, as contemplated in the form of corporate organization prescribed, and whether or not an independent or disinterested audit has been provided as a means of giving assurance

as to the correctness of financial or operative statements made. Such is the English law pertaining to corporations. The argument in support of this is that the corporation, being dependent on its agents for the exercise of its powers and for the use of its properties (its funds and other resources being entrusted to them), these same agents by reason of their position having in their hands the records and accounts through which proprietary control is to be obtained, there should be an independent or disinterested auditor over the system who is not responsible to, or controlled by these corporate agents. When it is reflected that the welfare of the nation is so largely involved in the integrity of corporate agents, much force is given to the argument.

Independent Audit of Corporations as a Means of Control.

Proceeding from the assumption that the government should provide for the means whereby corporate integrity may be established, two systems of independent audit have been evolved: (1) what may be styled the Continental system, and (2) the English system. These two systems have grown out of two distinct forms of political organization—the one arbitrary and bureaucratic, the other representative and democratic. Under the German, French or Russian system the government exercises a rigid inspection, and conducts the audit of corporations through which the public looks for protection. The success of such a method depends for its honesty and efficiency, in the first place, on the government itself being free from political or private influence, and, in the second place, on having within it the highest and best of professional intelligence. Thus, in Germany, for example, it is in the service of the government that are found the best engineers, the best financiers, the best lawyers, the best accountants. Again in Russia, the government being highly bureaucratic undertakes the paternalistic responsibility for the protection of private interests represented in the corporation; it does this through inspection and audit as a means of determining whether or not the officers and agents of the corporation have performed their responsibilities with fidelity and efficiency.

In England, the governing ideal is one of determining by public inspection and control whether or not the corporation has complied with the charter provisions, making it a condition precedent that the

corporation shall provide for itself an independent auditor, holding him (as the appointee of the stockholders or, in default of election at a regular meeting, as the appointee of the government for the stockholders) responsible for the accuracy of statements made which would reflect the fidelity or efficiency of corporate agents. To quote from "The Companies Act":

"Every company shall, at each annual meeting, appoint an auditor or auditors to hold office until the next annual general meeting.

"If an appointment of auditors is not made at an annual general meeting, the Board of Trade may, on the application of any member of the company, appoint an auditor of the company for the current year, fix the remuneration to be paid to him by the company for his service.

"A director or officer of the company shall not be capable of being appointed auditor of the company. . . .

"Every auditor of the company shall have a right of access, at all times, to the books, accounts and vouchers of the company, and shall be entitled to require from directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors, and the auditors shall sign a certificate at the foot of the balance sheet, stating whether or not all of their requirements as auditors have been complied with, and shall make a report to the stockholders on the accounts examined by them, and on every balance sheet laid before the company in general meeting their tenure of office; and in every such report shall state whether or not, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, as shown by the books of the company; and such report shall be read before the company in general meeting.

"If any person, in any return, report certificate, balance sheet, or other document required by or for the purpose of this act, wilfully makes a statement false in any material particular, knowing it to be false, he shall be guilty of a misdemeanor, and shall be liable, on conviction, and on indictment, to imprisonment for a term not exceeding two years, with or without hard labor, and on summary conviction to imprisonment for a term not exceeding four months, with or without hard labor; and in either case to a fine in lieu of, or in addition to such imprisonment aforesaid."

When we reflect on the efforts at corporate regulation through public examination and on the failure of attempts made in this country to regulate the affairs of corporations through public examination, we may well question the propriety, as has England, of relying on bureaucratic methods for the protection of private interests, especially when these private interests are in a much stronger position to bring evidences of irregularity before the courts and enforce their

rights. The English system is one which places on the stockholders themselves (the proprietors of the corporation) the duty of providing the means of effective control—one which places on the joint proprietors of the corporation (the stockholders) the duty of appointing an independent auditor for the critical inspection or examination of the system installed and operated by the officers of the company. It is as necessary as is the appointment of any other officer in default of which a department of the government may assign an independent auditor to duty. That the officer may know whether the report of the employee is to be relied on, that the director may have a true record of results from the officer in charge, and that the stockholder may have before him a proper basis for estimate of integrity and ability of the several forms of corporate trustees and agents, the law requires that a corporation before it shall begin business shall choose, among other officers, an independent auditor who shall be in no way interested in the business, who shall certify to the correctness of reports, and who shall become responsible, both civilly and criminally, for the truth of the statements made over his certificate. This is not only a legal recognition of the importance of the audit to effective administrative control, but it is also a recognition of the duty of government to provide the conditions most favorable to success in the administration of an institution created in the interest of public welfare and dependent on trustees for its operation. It is a provision which requires the establishment of conditions necessary to an intelligent knowledge of affairs. It protects the corporation by permitting it to choose its own auditor. It protects the public and insures to it the highest social return by putting into the hands of the corporate authorities the means whereby the institution may attain the best corporate result. In the English system is found the best method for the administrative control of corporations that has been devised. True to the purposes of its enactment "The Companies Act" of England has most effectively regulated the corporations coming under its jurisdiction without submitting the companies themselves to prying inquisition and to the blackmailing possibilities of corrupt and inefficient officials.